

TOWN OF NEW HARMONY
FINANCIAL STATEMENTS
(UNAUDITED)
YEAR ENDED JUNE 30, 2005



KEMP BURDICK
KEMP BURDICK HINTON & HALL L.C.
CPA'S & ADVISORS

TOWN OF NEW HARMONY

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FINANCIAL SECTION



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Accountants' Report

The Honorable Mayor and
Town Council
New Harmony, Utah

We have reviewed the accompanying financial statements of the governmental activities, business-type activities and each major fund of the Town of New Harmony as of and for the year ended June 30, 2005, which collectively comprise the Town's basic financial statements as listed in the table of contents, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of the Town of New Harmony.

A review consists principally of inquiries of Town personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying basic financial statements in order for them to be in conformity with generally accepted accounting principles.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. Such information has not been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, but were compiled from information that is the representation of management, without audit or review. Accordingly, we do not express an opinion or any other form of assurance on the management's discussion and analysis.

Kemp, Burdick, Hinton & Hall, L.C.

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November 22, 2005

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MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of New Harmony (Town), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2005. Please read it in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- Total assets exceed total liabilities (net assets) by \$ 537,581 at the close of the fiscal year.
- Total net assets increased by \$174,828.
- Total revenues from all sources were \$248,963 and the total cost of all Town programs was \$74,135. Total transfers out was \$52,000.
- Total revenue received in the General Fund was \$25,946 more than the final budget and expenditures were \$20,883 less than the final budget.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$73,111 or 155% of total General Fund expenditures.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The three components of the financial statements are: (1) Government-wide financial statements which include the Statement of Net Assets and the Statement of Activities. These statements provide information about the activities of the Town as a whole. (2) Fund financial statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Town's operations in more detail than the government-wide statements. (3) Notes to the financial statements.

Reporting the Town as a Whole

The Statement of Net Assets and the Statement of Activities (Government-wide)

A frequently asked question regarding the Town's financial health is whether the year's activities contributed positively to the overall financial well-being. The Statement of Net Assets and the Statement of Activities report information about the Town as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Town's net assets and changes in them. Net assets, the difference between assets and liabilities, are one way to measure the Town's financial health, or financial position. Over time, increases or decreases in net assets are an indicator of whether the financial health is improving or deteriorating. However, it is important to consider other non-financial factors such as changes in the Town's property tax base or jurisdiction, the availability of capital projects, and condition of the Town's assets to accurately assess the overall health of the Town. The Statement of Net Assets and the Statement of Activities, present information about the following:

- Government activities – All of the Town's basic services are considered to be governmental activities, including general government, solid waste, public safety, public works, cemetery, culture and recreation, Grafton heritage partnership, capital outlay and interest on long-term debt. Property taxes, sales taxes, intergovernmental revenues and charges for services finance most of these activities.

- Proprietary activities/Business type activities – The Town currently only has one proprietary activities fund, which is a water fund.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of the Town's financial position. The Town's combined assets exceed liabilities by \$537,581 as of June 30, 2005 as shown on the following condensed statement of net assets.

	6/30/2004	6/30/2005
Current and other assets	\$ 259,786	\$ 248,947
Capital assets	258,416	496,977
Total assets	518,202	745,924
Long-term obligations	154,088	208,068
Other liabilities	1,361	275
Total liabilities	155,449	208,343
Net assets:		
Invested in capital assets, net of related debt	104,327	288,909
Restricted	72,899	113,358
Unrestricted	185,527	135,314
Total net assets	\$ 362,753	\$ 537,581

Governmental Activities

The cost of all Governmental activities this year was \$47,273. \$44,328 of this cost was paid for by those who directly benefited from the programs, \$8,920 was subsidized by grants received from other governmental organizations for operations and capital activities. Overall governmental program revenues, including intergovernmental aid and fees for services were \$53,248. General revenues, including taxes and investment earnings totaled \$71,914.

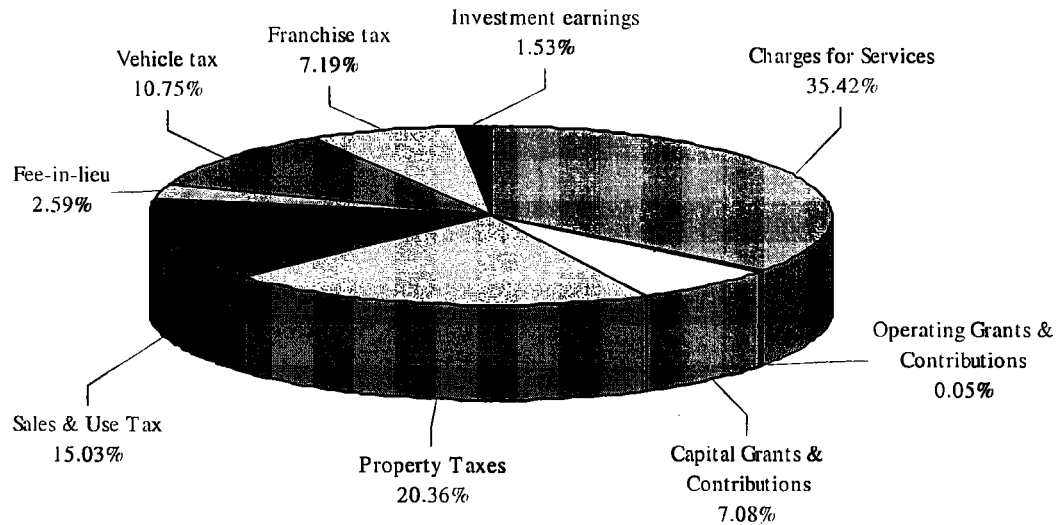
The Town's programs include: Legislative, General Government, Public Works/Streets, Culture & Recreation, Solid Waste, Public Safety, and Cemetery. Each programs' net cost (total cost less revenues generated by the activities) is presented on the next page. The net cost shows the extent to which the Town's general taxes support each of the Town's programs.

	<u>6/30/2004</u>	<u>6/30/2005</u>
Revenues:		
Program revenues:		
Charges for services	\$ 32,569	\$ 44,328
Operating grants	43	58
Capital grants and contributions	14,146	8,862
General revenues:		
Property taxes	18,319	25,478
Sales & Use	18,314	18,814
Fee-in-lieu	2,451	3,247
Vehicle tax	13,929	13,456
Franchise Tax	3,641	8,999
Unrestricted investment earnings	1,987	1,920
Total revenues	<u>105,399</u>	<u>125,162</u>
Expenses:		
Legislative	7,938	8,265
General Government	40,018	21,173
Solid waste	10,211	10,221
Public safety	401	188
Public works/streets	2,226	3,309
Cemetery	3,921	2,551
Culture & recreation	2,020	1,566
Interest on long-term debt	-	-
Total expenses	<u>66,735</u>	<u>47,273</u>
Other financing sources and uses:		
Operating transfers out	-	52,000
Total other financing sources and uses	<u>-</u>	<u>52,000</u>
Increase in net assets	38,664	25,889
Net assets, beginning	178,018	216,682
Net assets, ending	<u>\$ 216,682</u>	<u>\$ 242,571</u>

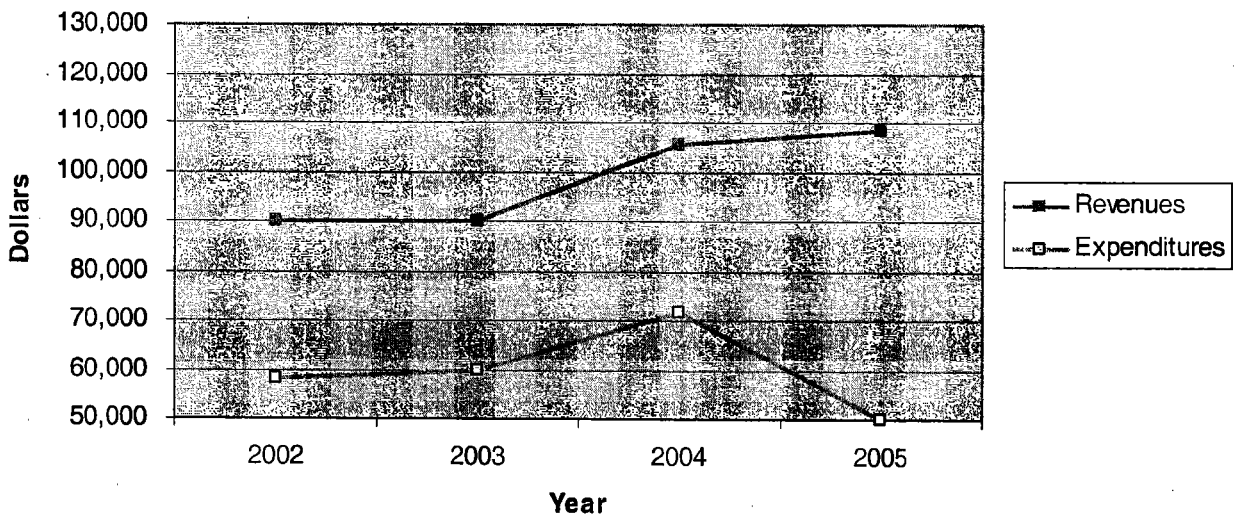
Total resources available during the year to finance governmental operations were \$341,844 consisting of Net assets at July 1, 2004 of \$216,682, program revenues of \$53,248 and General Revenues of \$71,914. Total Governmental Activities expenses during the year were \$47,273 and transfers out were \$52,000; thus, Governmental Net Assets were increased by \$25,939 to \$242,571.

The following graph provides a breakdown of revenues by source for all government activities.

Revenue by Source - Governmental Activities



Fund Revenue & Expenditure Comparison by Year



General Fund Budgetary Highlights

The final appropriations for the General Fund at year-end were \$20,883 greater than actual expenditures mainly due to public works/streets expenditures. Actual revenues were greater than the final budget by \$25,946 mainly due to property tax, franchise tax, and cemetery revenues. Budget amendments and supplemental appropriations were made during the year to prevent budget overruns and to increase appropriations for unanticipated expenditures after adoption of the original budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The capital assets of the Town are those assets that are used in performance of Town functions. Capital Assets include land, buildings, and equipment. At the end of fiscal year 2005, net capital assets of the government activities totaled \$71,171. Depreciation on capital assets is recognized in the Government-Wide financial statements. (See note 6 to the financial statements.)

NEXT YEAR'S BUDGET AND ECONOMIC FACTORS

In considering the Town Budget for fiscal year 2005/2006, the Town Board and management estimated the budget for operating revenues and expenditures will be similar to this year.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in the government's finances and to show the Town's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jack Vandervest, Town Clerk of the Town of New Harmony at P.O. Box 620, New Harmony, UT, 84757 or call 435-865-7522.

BASIC FINANCIAL STATEMENTS

TOWN OF NEW HARMONY
Statement of Net Assets
June 30, 2005

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 72,624	\$ 55,937	\$ 128,561
Receivables (net of allowance)	16,766	6,266	23,032
Due from other governments	762	-	762
Restricted assets:			-
Temporarily restricted:			-
Cash and cash equivalents	81,523	15,069	96,592
Capital assets (net of accumulated depreciation)			-
Land	10,000	-	10,000
Streets & improvements	61,171	182,217	243,388
Buildings and improvements	-	-	-
Machinery and equipment	-	-	-
CIP - Water System		243,589	243,589
Total assets	<u>242,846</u>	<u>503,078</u>	<u>745,924</u>
Liabilities			
Accounts payable	-	-	-
Accrued liabilities	275	-	275
Noncurrent liabilities:			-
Due within one year	-	6,469	6,469
Due in more than one year	-	201,599	201,599
Total liabilities	<u>275</u>	<u>208,068</u>	<u>208,343</u>
Net Assets			
Invested in capital assets, net of related debt	71,171	217,738	288,909
Restricted for:			
Class C road funds	19,915		19,915
Cemetery	78,374		78,374
Water project		7,078	7,078
Debt service		7,991	7,991
Unrestricted	73,111	62,203	135,314
Total net assets	<u>\$ 242,571</u>	<u>\$ 295,010</u>	<u>\$ 537,581</u>

See accompanying notes and accountants' report.

TOWN OF NEW HARMONY
Statement of Activities
For the Year Ended June 30, 2005

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
Legislative	\$ 8,265	\$ -	\$ -	\$ -	\$ (8,265)	\$ -	\$ (8,265)
General Government	21,173	3,767	58	-	(17,348)	-	(17,348)
Solid waste	10,221	11,183	-	-	962	-	962
Public safety	188	-	-	-	(188)	-	(188)
Public works/streets	3,309	-	-	8,862	5,553	-	5,553
Cemetery	2,551	29,356	-	-	26,805	-	26,805
Culture & recreation	1,566	22	-	-	(1,544)	-	(1,544)
Total governmental activities	47,273	44,328	58	8,862	5,975	-	5,975
Business-type activities:							
Enterprise	26,862	39,607		81,762	-	94,507	94,507
Total business-type activities	26,862	39,607	-	81,762	-	94,507	94,507
General Revenues:							
Taxes:							
					25,478	-	25,478
					18,814	-	18,814
					3,247	-	3,247
					13,456	-	13,456
					8,999	-	8,999
					1,920	2,432	4,352
					(52,000)	52,000	-
					19,914	54,432	74,346
					25,889	148,939	174,828
					216,682	146,071	362,753
					\$ 242,571	\$ 295,010	\$ 537,581

See accompanying notes and accountants' report.

TOWN OF NEW HARMONY
Balance Sheet
Governmental Funds
June 30, 2005

	<u>General Fund</u>
Assets	
Cash	\$ 72,624
Accounts receivable	-
Due from other governments	762
Prepaid expenses	-
Cash - restricted	<u>81,523</u>
Total assets	<u><u>154,909</u></u>
Liabilities and Fund Balances	
Liabilities:	
Accounts payable	-
Accrued liabilities	<u>275</u>
Total liabilities	<u><u>275</u></u>
Fund Balances:	
Reserved	81,523
Unreserved	<u>73,111</u>
Total fund balances	<u><u>154,634</u></u>
Total liabilities and fund balance	<u><u>\$ 154,909</u></u>

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	71,171
Some assets, including accounts receivable of the cemetery department, are not due and receivable in the current period and therefore are not reported in the funds.	<u>16,766</u>
Net assets of governmental activities	<u><u>\$ 242,571</u></u>

See accompanying notes and accountants' report.

TOWN OF NEW HARMONY
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2005

	<u>General Fund</u>
Revenues:	
Property taxes	\$ 25,478
Sales and use taxes	18,814
Fee-in-lieu	3,247
Vehicle taxes	13,456
Franchise taxes	8,999
Licenses and permits	-
Intergovernmental revenue	8,833
Interest income	2,029
Solid waste services	11,183
Cemetery	12,590
Other revenues/donations	<u>3,767</u>
Total revenues	<u>108,396</u>
Expenditures:	
Current:	
Legislative	8,265
General government	18,792
Solid waste	10,221
Public safety	188
Public works/streets	8,334
Cemetery	2,551
Culture & recreation	1,566
Capital outlay	-
Debt service	<u>-</u>
Total expenditures	<u>49,917</u>
Excess (deficiency) of revenues over (under) expenditures	58,479
Other financing sources (uses):	
Operating transfers in (out)	<u>(52,000)</u>
Net change in fund balance	6,479
Fund Balance - beginning of year	<u>148,155</u>
Fund Balance - end of year	<u><u>\$ 154,634</u></u>

See accompanying notes and accountants' report.

TOWN OF NEW HARMONY
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2005

Amounts reported for governmental activities in the statement of activities
are different because:

Net change in fund balances - total governmental funds	\$ 6,479
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	2,644
Accounts receivable for revenues that are not due in the current period are not reported as revenue in the current period while they are recorded in the statement of activities.	<u>16,766</u>
Change in net assets of governmental activities	<u>\$ 25,889</u>

See accompanying notes and accountants' report.

TOWN OF NEW HARMONY
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual – Governmental Funds
For the Year Ended June 30, 2005

	Budget Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final	Amounts	
Revenues:				
Property taxes	\$ 17,100	\$ 17,100	\$ 25,478	\$ 8,378
Sales and use taxes	19,000	19,000	18,814	(186)
Fee-in-lieu	3,000	3,000	3,247	247
Vehicle taxes	14,000	14,000	13,456	(544)
Franchise taxes	-	-	8,999	8,999
Licenses and permits	-	-	-	-
Intergovernmental revenue	7,500	7,500	8,833	1,333
Interest income	2,100	2,100	2,029	(71)
Solid waste services	11,500	11,500	11,183	(317)
Cemetery	7,250	7,250	12,590	5,340
Other revenues/donations	1,000	1,000	3,767	2,767
Total revenues	82,450	82,450	108,396	25,946
Expenditures:				
Current:				
Legislative	6,500	8,000	8,265	(265)
General government	23,900	20,900	18,792	2,108
Solid waste	10,700	10,700	10,221	479
Public safety	-	-	188	(188)
Public works/streets	14,000	25,900	8,334	17,566
Cemetery	2,000	3,000	2,551	449
Culture & recreation	4,000	2,300	1,566	734
Debt service	-	-	-	-
Total expenditures	61,100	70,800	49,917	20,883
Excess (deficiency) of revenues over (under) expenditures	21,350	11,650	58,479	46,829
Other financing sources (uses):				
Operating transfers in (out)	(34,000)	(34,000)	(52,000)	(18,000)
Net change in fund balance	(12,650)	(22,350)	6,479	28,829
Fund Balance - beginning of year	148,155	148,155	148,155	-
Fund Balance - end of year	\$ 135,505	\$ 125,805	\$ 154,634	\$ 28,829

See accompanying notes and accountants' report.

TOWN OF NEW HARMONY
Statement of Net Assets
Proprietary Fund
June 30, 2005

	Proprietary Fund Type
	<u>Water Fund</u>
Assets	
Current assets:	
Cash	\$ 55,937
Accounts receivable	6,266
Prepaid expenses	-
Total current assets	<u>62,203</u>
Noncurrent assets:	
Cash - restricted	15,069
Capital assets:	
Property, plant, and equipment	339,954
Construction in progress - water system	243,589
Accumulated depreciation	<u>(157,737)</u>
Total noncurrent assets	<u>440,875</u>
Total assets	<u>503,078</u>
Liabilities	
Current liabilities:	
Accounts payable	-
Accrued liabilities	-
Current portion of bonds payable	3,500
Current portion of notes payable	<u>2,969</u>
Total current liabilities	<u>6,469</u>
Noncurrent liabilities:	
Bonds payable	25,000
Note payable	183,068
Less current portion of long-term debt	<u>(6,469)</u>
Total noncurrent liabilities	<u>201,599</u>
Total liabilities	<u>208,068</u>
Net Assets	
Invested in capital assets, net of related debt	217,738
Restricted	15,069
Unrestricted	<u>62,203</u>
Total net assets	<u><u>\$ 295,010</u></u>

See accompanying notes and accountants' report.

TOWN OF NEW HARMONY
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Fund
For the Year Ended June 30, 2005

	Proprietary Fund
	Water Fund
Operating Revenues:	
Charges for services	\$ 36,854
Other revenue	-
Total operating revenues	36,854
Operating Expenses:	
Administrative	3,793
Salaries and wages	-
Repairs and maintenance	475
Utilities	1,808
Professional and technical fees	-
Contract services	1,500
Materials and supplies	2,312
Miscellaneous	545
Depreciation	7,672
Total operating expenses	18,105
Operating income	18,749
Non-operating Revenues (Expenses):	
Interest income	2,432
Interest expense	(8,757)
Grants	81,762
Connection and impact fees	2,753
Total non-operating revenues (expenses)	78,190
Net Income before transfers	96,939
Transfers (to) from other funds	52,000
Change in net assets	148,939
Total net assets, beginning of year	146,071
Total net assets, end of year	\$ 295,010

See accompanying notes and accountants' report.

TOWN OF NEW HARMONY
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2005

	Proprietary Fund
	Water Fund
Cash Flows From Operating Activities:	
Cash received from customers, service fees	\$ 43,670
Cash received from customers, other	-
Cash paid to suppliers	(10,433)
Net cash flows from operating activities	<u>33,237</u>
Cash Flows From Noncapital Financing Activities:	
Grant	81,762
Operating transfers	52,000
Net cash flows from noncapital financing activities	<u>133,762</u>
Cash Flows From Capital and Related Financing Activities:	
Principal paid on long-term debt	53,980
Interest paid	(8,757)
Water system improvements	(243,589)
Connection and impact fees	2,753
Net cash flows from capital and related financing activities	<u>(195,613)</u>
Cash Flows From Investing Activities:	
Interest on investments	2,432
Net cash flows from investing activities	<u>2,432</u>
Net decrease in cash and cash equivalents	(26,182)
Cash and cash equivalents, beginning of year	97,188
Cash and cash equivalents, end of year	<u>\$ 71,006</u>
Reconciliation of operating income to net cash flows	
from operating activities:	
Net operating income	18,749
Adjustments to reconcile net operating income to net cash	
flows from operating activities:	
Depreciation	7,672
Changes in operating assets and liabilities:	
(Increase)/decrease in receivables	6,816
Net cash flows from operating activities	<u>\$ 33,237</u>

See accompanying notes and accountants' report.

TOWN OF NEW HARMONY
Notes to the Financial Statements
June 30, 2005

NOTE 1. Summary of Significant Accounting Policies

General

The Town of New Harmony (Town) is incorporated under the laws of the State of Utah. The Town operates under a council form of government and provides the following services: public safety, highways and streets, sanitation, water, parks and recreation, public improvements, planning and zoning, and general administration services.

The financial statements of the Town have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Town's accounting policies are described below.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1998, generally are followed in both the governmental-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Town has elected not to follow subsequent private-sector guidance.

Reporting Entity

In evaluating how to define the Town for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth in GAAP. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Town is able to exercise oversight responsibilities. Based upon the application of these criteria, there are no separate component units combined to form the reporting entity.

TOWN OF NEW HARMONY
Notes to the Financial Statements
June 30, 2005

NOTE 1. Summary of Significant Accounting Policies, Continued

The accompanying financial statements include all activities of the Town.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of the inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The use of financial resources to acquire capital assets is capitalized as an asset in the government-wide financial statements, rather than as an expenditure. Proceeds from long-term debt are recorded as a liability in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term debt of the Town are reported as a reduction of a related liability, rather than as expenditures in the government-wide financial statements.

TOWN OF NEW HARMONY
Notes to the Financial Statements
June 30, 2005

NOTE 1. Summary of Significant Accounting Policies, Continued

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, room taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Town.

The **General Fund** is used to account for all financial resources applicable to the operations of the Town. It is the only major governmental fund of the Town.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

Business type fund financial statements are reported, using the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and become measurable; expenses are recognized in the period incurred.

Business-type Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the Town is that the costs of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges, or where the Town has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriated for capital maintenance, public policy, management control, accountability or other purposes.

The **Water Fund** is used to account for the provision of water services to the residents of the Town. It is the Town's only major business-type fund.

TOWN OF NEW HARMONY
Notes to the Financial Statements
June 30, 2005

NOTE 1. Summary of Significant Accounting Policies, Continued

Cash and Investments

Cash includes cash on hand, demand deposits with banks and other financial institutions, deposits in other types of accounts or cash management pools that have the general characteristics of demand deposit accounts and short-term investments with original maturities of three months or less from the date of acquisition. The Town's policy allows for the investment of funds in time certificates of deposit with federally insured depositories, investment in the state treasurer's pool, and other investments as allowed by the State of Utah's Money Management Act. All investments are carried at fair value with unrealized gains and losses recorded as adjustments to interest earnings. Fair market values are based on quoted market prices.

Receivables

All trade accounts receivable are shown net of an allowance for uncollectibles. Due to the nature of the accounts receivable in governmental type activities, management does not consider an allowance for uncollectible accounts receivable necessary or material. Therefore, no allowance for uncollectible accounts receivable is presented.

Inventories and prepaid items

The costs of governmental fund-type inventories are recorded as expenditures when purchased rather than when consumed. Also, the Town's inventory of materials and supplies is deemed to be immaterial; thus, no provision for inventory has been made in these financial statements.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

Capital Assets

Fixed assets in the proprietary funds are carried at cost. Depreciation is computed using the straight-line method over the assets' estimated useful lives.

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in income for the period. The cost of maintenance and repairs is charged to income as incurred; significant renewals and betterments are capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

TOWN OF NEW HARMONY
Notes to the Financial Statements
June 30, 2005

NOTE 1. Summary of Significant Accounting Policies, Continued

Capital assets in governmental funds, which include property, plant, and equipment are reported in the government-wide financial statements. Capital assets are defined as assets with an individual cost of more than \$3,500 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

In accordance with GASB 34, the Town has opted not to retroactively report infrastructure fixed assets. Infrastructure normally includes assets such as roads, curb and gutter, sidewalks, street lighting, storm drains and other improvements.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Streets & improvements	20 years
Automobiles and trucks	5-7 years
Machinery and equipment	7 years

Accrued Benefits

Accumulated unpaid vacation and other employee benefit amounts are accrued as an expenditure at year end only when the Town has such a liability.

Long-Term Obligations

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums, discounts, and issuance costs are deferred and amortized over the life of the applicable debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

TOWN OF NEW HARMONY
Notes to the Financial Statements
June 30, 2005

NOTE 1. Summary of Significant Accounting Policies, Continued

Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Use of Restricted Assets

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources as they are needed.

TOWN OF NEW HARMONY
Notes to the Financial Statements
June 30, 2005

NOTE 2. Reconciliation of Government-Wide and Fund Financial Statements

Explanation of certain differences between the governmental fund balance sheet and government-wide statement of net assets:

The governmental fund balance sheet includes a reconciliation between total governmental fund balances and net assets of governmental activities as reported in the government-wide statement of net assets. The differences primarily result from the long-term economic focus of the statement of net assets versus the current financial resources focus of the governmental fund balance sheet.

Capital related items:

When capital assets (property, plant & equipment) that are to be used in governmental activities are purchased or constructed, the costs of those assets are reported as expenditures in governmental funds. However, the statement of net asset includes those capital assets among the assets of the Town as a whole.

Cost of capital assets	\$ 110,914
Accumulated depreciation	(39,743)
Total difference	<u>\$ 71,171</u>

Explanation of differences between governmental fund statement of revenues, expenditures, and changes in fund balance and the government-wide statement of activities:

The governmental fund statement of revenues, expenditures, and changes in fund balance includes a reconciliation between net changes in fund balances-total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. The first element of this reconciliation states that capital outlays are reported in the governmental funds as expenditures while the government-wide statement of activities allocates these costs over the useful lives of the assets as depreciation. While shown in the reconciliation as the net difference, the elements of this difference of \$2,644 are as follows:

Capital outlay	\$ 8,334
Depreciation expense	<u>(5,690)</u>
Net adjustment to increase net changes in fund balance total governmental funds to arrive at changes in net assets of governmental funds	<u>\$ 2,644</u>

TOWN OF NEW HARMONY
Notes to the Financial Statements
June 30, 2005

NOTE 3. Stewardship Compliance and Accountability

Budgets and Budgetary Accounting

Annual budgets are reported and adopted by the Town Council on or before June 22 for the fiscal year commencing the following July 1 in accordance with State Law. The operating budget includes proposed expenditures and the proposed sources of financing for such expenditures. Prior to June 22, a public hearing is conducted to obtain taxpayer input. Budgets are adopted and control of budget appropriations is exercised, under State Law, at the department level. Budget amendments are required to increase expenditure budgets and are adopted, in a public hearing, before the end of the fiscal year.

The General Fund budget is prepared using the modified accrual basis of accounting. Budgets for the proprietary fund types are prepared using the accrual basis of accounting.

During the current fiscal year, there were amendments to the budget.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Town.

Taxes

Property taxes are collected by the Washington County Treasurer and remitted to the Town in monthly installments. Taxes are levied each October on the taxable value listed as of the prior January 1 for all real property located in the Town. Taxable values are established by the County Assessor at a percent of the fair market value on primary residential property and 100 percent of the fair market value on non-primary residential property. A revaluation of all property is required to be completed no less than every five years. Taxes are due and payable on November 1 and delinquent after November 30 of each year, at which time they become liens if not paid.

TOWN OF NEW HARMONY
Notes to the Financial Statements
June 30, 2005

NOTE 4. Cash and Investments

The State of Utah Money Management Council has the responsibility to advise the State Treasurer about investment policies, promote measures and rules that will assist in strengthening the banking and credit structure of the state and review the rules adopted under the authority of the State of Utah Money Management Act that relate to the deposit and investment of public funds.

The Town follows the requirements of the Utah Money Management Act (*Utah code*, Section 51, chapter 7) in handling its depository and investment transactions. The Act requires the depositing of Town funds in a qualified depository. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

Cash by Fund:

	General Fund	Enterprise Fund	Total
Cash on Hand	\$ -	\$ -	\$ -
Cash in Bank (SBSU)	34,150	-	34,150
Cash in Treasurer's Investment Pool	119,997	71,006	191,003
Total Cash	<u>\$ 154,147</u>	<u>\$ 71,006</u>	<u>\$ 225,153</u>

Restricted/Unrestricted Classification:

	General Fund	Enterprise Fund	Total
Unrestricted Funds	\$ 72,624	\$ 55,937	\$ 128,561
Restricted Funds:			
Cemetery	61,608		61,608
Class C Roads	19,915		19,915
Water Project		7,078	7,078
Debt Reserves		7,991	7,991
	<u>\$ 154,147</u>	<u>\$ 71,006</u>	<u>\$ 225,153</u>

TOWN OF NEW HARMONY
Notes to the Financial Statements
June 30, 2005

NOTE 4. Cash and Investments, Continued

Deposits

Custodial Credit Risk

For deposits this is the risk that in the event of a bank failure, the government's deposit may not be returned to it. The Town does not have a formal policy for custodial credit risk. As of June 30, 2005, none of the Town's bank balance of \$30,557 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Investments

The Money Management Act defines the types of securities authorized as appropriate investment for the Town and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

Statutes authorize the Town to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investor Services or Standard & Poor's, bankers' acceptances; obligations of the United States Treasury including bills, notes, and bonds; bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer's Investment Fund

The Utah State Treasurer's Office operates the Public Treasurer's Investment Fund (PTIF). The PTIF is available for investment of funds administered by any Utah public treasurer.

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, Section 51-7, *Utah Code Annotated, 1953*, as amended. The Act established the Money Management Council which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments.

Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gain or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses – net of administration fees, of the PTIF are allocated based upon the participant's average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

TOWN OF NEW HARMONY
Notes to the Financial Statements
June 30, 2005

NOTE 4. Cash and Investments, Continued

As of June 30, 2005 the government had the following investments and maturities:

Investment Type	Fair Value	Investments Maturities (in Years)			
		Less than 1	1-5	6-10	More than 10
State of Utah Public Treasurer's Investment Fund	\$ 191,003	\$ 191,003			
Total Fair Value	<u>\$ 191,003</u>	<u>\$ 191,003</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Town's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the State's Money Management Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested.

Credit risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Town's policy for reducing its exposure to credit risk is to comply with the State's Money Management Act.

At June 30, 2005 the Town had the following investments and quality ratings:

Investment Type	Fair Value	Quality Ratings			
		AAA	AA	A	Unrated
State of Utah Public Treasurer's Investment Fund	\$ 191,003				\$ 191,003
Total Fair Value	<u>\$ 191,003</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 191,003</u>

TOWN OF NEW HARMONY
Notes to the Financial Statements
June 30, 2005

NOTE 5. Receivables

Receivables shown in the balance sheet of the utility fund are amounts due from residents for water service.

Management considers all receivables to be collectable. Therefore, an allowance for doubtful accounts was not considered necessary.

NOTE 6. Capital Assets

The following table summarizes the changes to the fixed assets during the year ended June 30, 2005:

Governmental Activities:	Balance 6/30/2004	Additions	Deletions	Balance 6/30/2005
Capital assets, not being depreciated:				
Land	\$ 10,000	\$ -	\$ -	\$ 10,000
Total capital assets, not being depreciated	10,000	-	-	10,000
Capital assets, being depreciated:				
Streets & improvements	59,241	8,334	-	67,575
Vehicles	-	-	-	-
Machinery and equipment	33,339	-	-	33,339
Total capital assets, being depreciated	92,580	8,334	-	100,914
Less accumulated depreciation for:				
Streets & improvements	(3,095)	(3,309)	-	(6,404)
Vehicles	-	-	-	-
Machinery and equipment	(30,958)	(2,381)	-	(33,339)
Total accumulated depreciation	(34,053)	(5,690)	-	(39,743)
Total capital assets, being depreciated, net	58,527	2,644	-	61,171
Governmental activities capital assets, net	\$ 68,527	\$ 2,644	\$ -	\$ 71,171

TOWN OF NEW HARMONY
Notes to the Financial Statements
June 30, 2005

NOTE 6. Capital Assets, Continued

Depreciation expense was charged to the functions/programs of the Town as follows:

Governmental Activities:

General government	\$ 2,381
Parks & recreation	-
Public works & streets	<u>3,309</u>
Total depreciation expense - governmental activities	<u><u>\$ 5,690</u></u>

Business Type Activities:

	<u>Balance 6/30/2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/2005</u>
Capital assets, being depreciated:				
Water system & improvements	\$ 339,954	\$ -	\$ -	\$ 339,954
Total capital assets, being depreciated	<u>339,954</u>	<u>-</u>	<u>-</u>	<u>339,954</u>
Less accumulated depreciation for:				
Water system & improvements	(150,065)	(7,672)	-	(157,737)
Total accumulated depreciation	<u>(150,065)</u>	<u>(7,672)</u>	<u>-</u>	<u>(157,737)</u>
Total capital assets, being depreciated, net	<u><u>\$ 189,889</u></u>	<u><u>\$ (7,672)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 182,217</u></u>

TOWN OF NEW HARMONY
Notes to the Financial Statements
June 30, 2005

NOTE 7. Long-Term Debt

The following is a summary of long-term debt for the year ended June 30, 2005.

	June 30 2005
Water Revenue Bonds, Series 1984, due in annual installments at varying amounts through January 1, 2011 at 5.00%, payable from water fund revenues.	\$ 25,000
Note payable to the U.S. Department of Agriculture, Rural Development Agency, due in monthly installments of \$821 through November 16, 2030 at 5.875%, payable from water fund revenues.	123,068
Note payable to the U.S. Department of Agriculture, Rural Development Agency, due in monthly installments of \$267 through December 7, 2044 at 4.375%, payable from water fund revenues.	60,000
Total Long-Term Debt	<u>\$ 208,068</u>

The following is a summary of changes in long-term debt for the year ended June 30, 2005.

	Balance, June 30, 2004	Additions	Retirements	Balance June 30, 2005	Current Portion
1984 Water Bonds	\$ 28,500	\$ -	\$ 3,500	\$ 25,000	\$ 3,500
Notes Payable	125,589	60,000	2,521	183,068	2,674
Total Long-Term Debt	<u>\$ 154,089</u>	<u>\$ 60,000</u>	<u>\$ 6,021</u>	<u>\$ 208,068</u>	<u>\$ 6,174</u>

TOWN OF NEW HARMONY
Notes to the Financial Statements
June 30, 2005

NOTE 7. Long-Term Debt, Continued

The annual requirements to amortize long-term debt outstanding at June 30, 2005, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	6,469	12,415	18,883
2007	6,945	10,690	17,635
2008	7,625	10,335	17,960
2009	8,853	9,907	18,760
2010	9,576	9,434	19,010
2011-2015	27,679	41,294	68,973
2016-2020	32,039	33,259	65,298
2021-2025	42,519	22,779	65,298
2026-2030	31,952	10,433	42,385
2031-2035	9,504	6,543	16,048
2036-2040	11,824	4,224	16,048
2041-2045	13,084	1,358	14,443
Totals	<u>\$ 208,068</u>	<u>\$ 172,670</u>	<u>\$ 380,738</u>

TOWN OF NEW HARMONY
Notes to the Financial Statements
June 30, 2005

NOTE 8. Restricted and Designated Fund Balances

Restrictions and designations are used to indicate that a portion of the fund balance is not available for appropriation or expenditure, or is legally segregated for a specific future use. At June 30, 2005, the Town of New Harmony's restricted fund balances are as follows:

General Fund:	
Class C Roads	\$ 19,915
Cemetery	61,608
Total	<u>81,523</u>
Water Fund:	
Debt Reserves	7,991
Water Project	7,078
Total	<u>15,069</u>

NOTE 9. Defined Benefit Pension Plan

The Town has no full-time employees; thus, the Town does not participate in the Utah State-Wide Local Government Retirement Systems (Systems).

NOTE 10. Segment Information - Enterprise Fund

The Town maintains one enterprise fund (water fund) which provides water utility services to its citizens. All activities in the fund are included in the proprietary column in the financial statements.

NOTE 11. Risk Management

The Town maintains insurance for general liability, auto liability, and employee dishonesty through Utah Local Government's Insurance Trust.

**TOWN OF NEW HARMONY
P.O. BOX 620
133 E. CENTER ST.
NEW HARMONY, UTAH 84757
435-865-7522**

March 11, 2006

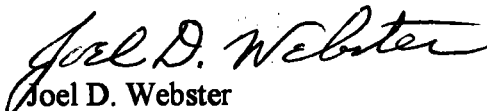
MacRay A. Curtis, CPA
Office of the State Auditor
State Capitol Complex, Suite E310
P.O. Box 142310
Salt Lake City, UT 84114-2310

Attn: Richard Moon

Dear Mr. Curtis:

This letter constitutes New Harmony's corrective action plan to bring our fund balances into compliance with state law.

1. At a public hearing on March 1, 2006, the town council voted to immediately transfer \$11,000 from our general fund to our water fund.
2. At the town council meeting on April 5, 2006, the town council by resolution will formerly establish a cemetery perpetual care fund. The approximately \$67,000 now in the cemetery fund will transfer to the newly established perpetual care fund, thus removing it from the general fund.
3. At the town council meeting on April 5, 2006, the town council by resolution will establish two capital project funds. The first of these will be a fund for road improvements which will initially have a balance of \$10,000 to \$15,000 transferred from the general fund. The second fund will be for capital improvements for a town nature park on 40 acres. The initial balance in this fund will be \$13,000 to \$16,000 transferred from the general fund.
4. Estimated year end fund balances will be reviewed during the budgeting process to make sure they are within the amounts established by state law.


Joel D. Webster
Mayor